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SUBJECT: PART THREE OF FOUR: RESULTS OF FINANCIAL SYSTEMS  
ASSESSMENT TEAM VISIT TO YEMEN MAR 1-7, 2007

REF: A. SANAA 1418  
[B](#). SANAA 1423

[1](#). Summary. A multi-agency Financial Systems Assessment Team (FSAT) conducted a week-long, in-country evaluation of Yemen's capacity to combat money laundering and terrorist financing, in order to determine its most critical training and technical assistance needs on March 1-7, 2007. This third section of the FSAT Team's report focuses on Yemen's NGO sector. End summary

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NGO,S  
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[2](#). Act. No. 1 of 2001 governs non-governmental organizations (NGO,s) under the Authority of the Ministry of Social Affairs and Labor (MOSAL), the ministry responsible for oversight of charitable NGOs in Yemen. MOSAL has four directorates: Associations, Institutions, Cooperatives and Finance. MOSAL also has 22 regional offices in Yemen. These offices conduct site field visits and regular inspections, request reports and occasionally attend NGO meetings.

[3](#). In Yemen, all NGOs belong to one of two categories. The first is an association. An association is open and has elections. The second type of NGO is a private foundation. A foundation is created by a donor or group of donors using their own funding sources. In the case of a foundation, the donors control the operation of the NGO. The financier controls the sponsored NGO.

[4](#). According to the law, contributions, gifts, and aid require prior approval following verification of the legal source. Penalties for infractions may range from fines to imprisonment and are theoretically imposed on any individual that misrepresents the licensed mission and mandate of the organization or engages in fraud. Act No. 1 places responsibility for NGO oversight throughout Yemen in the hands of MOSAL. NGOs are required to submit an annual report on their financial activities to MOSAL. Periodic field surveys are also conducted by the Ministry. NGOs are subject to auditing by the Central Organization for Control and Audit (COCA) under Act No. 38 of 1992. NGOs with accounts in excess of one million Yemeni Riyals (USD 50,000) yearly must be audited by a certified independent legal accountant under the implementing regulations of Act 1.

[5](#). The CBY, in cooperation with MOSAL, has adopted precautionary procedures with regards to opening and

management of charitable accounts. These procedures were passed to NGOs in the form of Circular No. 33989 (June 2002) and Circular No. 91737 (November 2004).

¶16. MOSAL, however, only has modest control over the NGOs in Yemen. The current laws are very open and don't provide for centralized oversight and controls over NGOs by MOSAL. Amendments to the current law are being considered which would provide for more centralized oversight and control by MOSAL. For the amendments to be effective, they will have to receive the support of Parliament, which has been problematic in the past as several MPs are also involved in charities/NGOs. In addition, MOSAL is constrained by limited staff (15-20 personnel devoted to compliance/monitoring). The staff must vet dozens of requests for the establishment of new NGOs every month. Timeliness of vetting is an issue, since by law these requests have to be addressed within 30 days or the NGO will automatically be granted legal status.

¶17. Yemen has not designated HAMAS or Palestinian Islamic Jihad as foreign terrorist organizations. Both organizations maintain offices in Yemen and use them as bases to conduct fundraising. In conversations with the ROYG Parliament, Foreign Affairs Committee and Post, Yemen remains vigilant in its support for the resistance in the West Bank and Gaza. It is unlikely that Yemen will take any actions to uproot the presence of such organizations in the near future.

#### Financial Aspects of NGO operations

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¶18. Foreign nationals are not permitted to establish/register NGOs in Yemen. International NGOs, however, are allowed to operate in Yemen. In addition, foreign nationals can coordinate with international NGOs and foreign donors to gain

financial support for local initiatives. According to MOSAL, the majority of contributions to NGOs in Yemen come from foreign donors, who mostly contribute through payment in kind and not cash. MOSAL believes only a small portion of donations is diverted from NGOs for nefarious purposes. Without accurate control measures or staff to conduct proper audits, it is hard to substantiate this claim.

¶19. Currently, NGOs can freely transfer funds into or out of Yemen; the only requirement is that NGOs must notify MOSAL. (NGOs do not need the permission of MOSAL to transfer funds.) Yemeni charities are required to have one bank account opened through MOSAL. Persons with signature authority are also coordinated through MOSAL.

¶10. MOSAL cannot freeze or close accounts when violations occur. They must go through judicial channels to freeze or close accounts. Over a year ago, it was determined that 1,500 NGOs violated their legal status. MOSAL has filed paperwork to have these NGOs dissolved, but this has not yet occurred.

¶11. MOSAL has a database where all information is stored. Currently, this database can communicate only between the main office of MOSAL and five regional offices.

#### ¶12. Training:

-- MOSAL could benefit from training on the legal and operational aspects of international money transfers as well as from auditing and financial investigative training for its compliance and control staff.

-- MOSAL could also benefit from technical assistance in completing its centralized database.

-- NGOs need to be educated and trained on their financial auditing and reporting requirements.

-- MOSAL may benefit from the translated version of U.S. Treasury's revised "Best Practices for NGOs and Charities for Distribution."

-- MOSAL would also benefit from translated copies of the FATF,s and the MENA FATF,s best practices papers on NGOs.

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MONEY EXCHANGE BUREAUS  
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¶13. There are approximately 448 registered money exchange businesses in Yemen, who primarily serve to exchange currencies and transfer funds. According to informal discussions, obtaining a business permit to open and operate a money exchange business is extremely easy. The process involves filling out an application and then undergoing some type of review before the permit is issued. There are two types of money transfer businesses. One type is used by individuals and the other type is for commercial customers. The money transfer businesses can register for one permit type, but can open offices at several locations. The transfer of funds over USD 10,000 or more requires the permission of the Central Bank.

¶14. The official who oversees regulation of the money exchange businesses maintained that there was no problem in regulating this sector. However, the Central Bank noted that it has not yet begun to examine this sector for AML compliance.

¶15. Estimates suggest that somewhere between 60-80 percent of the population does not use the formal banking system. As a result, the majority of individuals use the informal banking system, specifically, alternative remittance systems and money exchangers. The CBY has issued circulars to money exchangers outlining policies for all transfers over USD \$10,000.

¶16. Over three million Yemenis live outside of Yemen and rely on various informal value transfer systems to transmit money back to Yemen. These remittances are extremely important in supporting the Yemeni economy, but it is unclear if and how most of them are regulated. The CBY claims to have oversight over the 20 largest money exchangers and will conduct spot inspections. The CBY also requires that money

exchangers file financial reports to them annually.

¶17. Given the fact that the CBY has not yet begun systematic examinations of this sector for compliance and the risks that the money exchange sector presents globally, it is important to ensure that the CBY is properly trained and begins to conduct examinations and audits of this sector.

BRYAN